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National Intelligence Daily Cable for Monday, The NID Cable is for the purp senior US officials.	
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	ISRAEL: Reform Package
25X1 •	The Israeli Government's new economic austerity and reform program marks a sudden shift away from 30 years of socialist-oriented policies. Prime Minister Begin and his opponents recognize that the government faces a major test of its political strength over the new program.
25X1	The principal measures in the program allow the Israeli pound to float freely and remove most foreign exchange restrictions. Israelis can now hold as much foreign currency as they desire at home and take limited quantities outside the country. The government also increased fuel prices by 25 percent—bringing gasoline to \$2.40 a gallon—and increased the value added tax on business by 50 percent.
25X1	Finance Minister Ehrlich estimates that the Israeli pound will drop from 10.4 to 15 per US dollar and that the rate of inflation will jump to 35-40 percentsome 10 percent above the rate expected this year. Prices of basic subsidized commodities such as bread, eggs, milk, frozen meat, electricity, and public transportation are expected to rise by 15 percent.
25X1	The government hopes the program will make Israel more attractive to foreign investors. Ehrlich believes that some \$3 billion illegally held by Israelis abroad will flow back to Israel. The government has periodically devalued the pound by small amounts, and tense minidevaluations may have eroded confidence in the pound. Devaluations have reduced the value of the pound from 25 to 10 cents since 1974, one of the largest currency changes undertaken by any country in recent years.
25X1	Since 1948, Israel essentially has had a socialist, labor-oriented economy, with strict restraints on the use of foreign exchange and high consumer subsidies. Moreover, the Histadrut labor organization owns or controls most of Israel's major industries.
25X1	Begin is billing the program as a legitimate reform that was launched at a time when the economy was recovering fairly well. Opponents—the Labor Party and the Histadrut—have attacked the measures as overly austere. They claim that the

Gross National Product is increasing at a desirably moderate rate and that earlier devaluations, price hikes, and subsidy cuts already have limited gains in real wages or consumer purchasing power.

We do not expect the program to seriously affect the economic recovery now underway. We estimate that GNP is currently rising at about a 5 percent rate. The GNP rise is led almost entirely by exports, which now equal nearly half the national product, and the pound float should further stimulate export industries. Industrial production rose 9 percent during the first half of this year compared with second half 1976, and the improvement continued into the third quarter. Inventories are being worked down, and new investment in plants and equipment has picked up.

The new program will enable Israel further to improve its balance-of-payments position. We estimate that Israel will have a \$2 billion current account deficit this year--a deficit which will be more than covered by US assistance and other capital inflows. Israel should have a \$350 million overall surplus to add to reserves or to reduce short term debt. With further improvement expected next year, Israel should finally reach a comfortable reserve position.

The main obstacle to both the reform program and recovery efforts is labor. The Histadrut has announced that it will seek immediate wage compensation for the cost of living hike and said that it will be hard-nosed when new wage packages are negotiated in January. More than a "catch up" wage increase would jeopardize Begin's effort to hold down inflation and achieve stability of the pound. Protest strikes called by the Histadrut began yesterday with brief walkouts by postal and communication workers. Longshoreman have slated a stoppage for today.

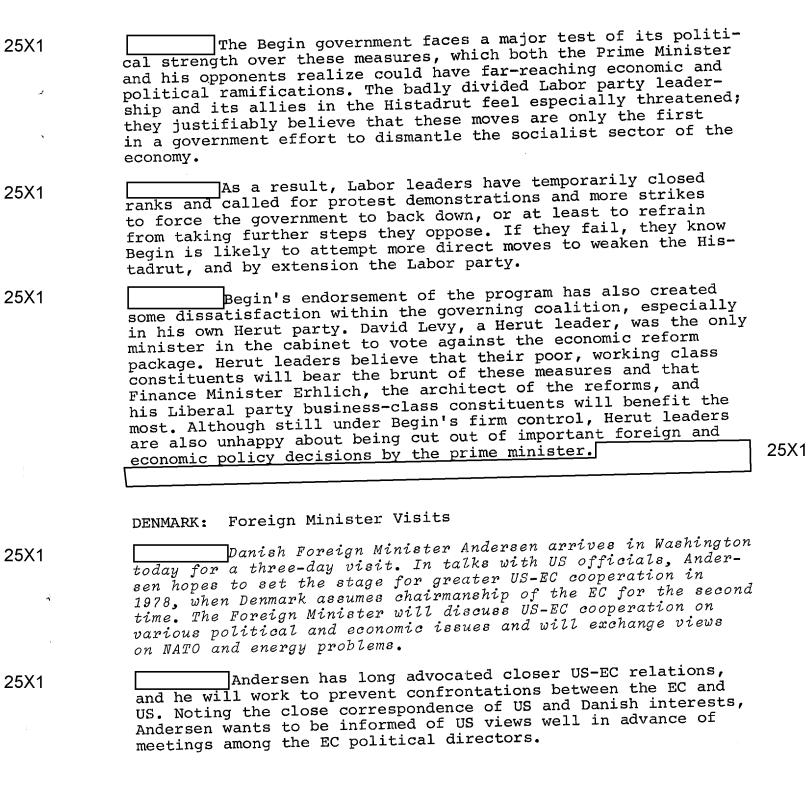
The Israelis are beginning to run into serious labor shortages, which are constraining economic growth. These shortages result from the continuing priority the Israelis place on military manpower requirements, the rising net emigration of Israeli citizens, and the departure of West Bank Arabs for higher paying jobs in Jordan and the oil rich states. Without an easing of the military burden, Israel will not be able to return to the pre-1973 average growth rate of 10 percent.

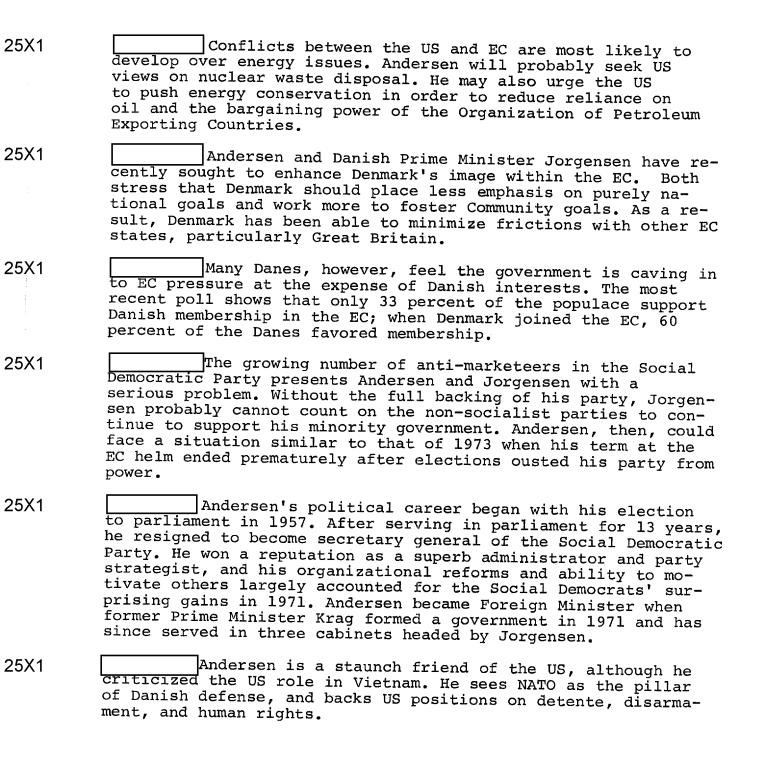
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25X1 Approved For Release 2005/07/28 : CIA-RDP79T00\$75A030400010026-5 He has come under criticism in Denmark for stating that 25X1 the West should have pre-empted the Cubans in Angola by supporting the liberation movement headed by Angolan leader Neto. Andersen probably explained these remarks to Cuban President Castro, whom he met while visiting Cuba over the weekend. He was the first foreign minister of an EC member-state to visit Cuba. 2**53**1 25X1 25X1 25X1

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FRANCE-	POLARISARIO	: Kidnaping	3		

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Thirteen Frenchmen have disappeared in Mauritania since 1976; they presumably were kidnaped by the Polisario. The French media have been pressing the government to do more to obtain the release of the men, and the latest kidnapings have embarrassed the government and forced it to make a dramatic gesture.

cluded no means to get the hostages back. The Algerian govern-ment, which backs the guerrillas, has denounced the statement, but the Algerians have also offered to aid in negotiations.

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Algeria has reacted angrily to French hints of inter-25X1 vention and issued a veiled warning that bilateral relations will suffer if France becomes more deeply involved in the Saharan conflict. The Algerian Foreign Ministry, however, tried to calm the situation over the weekend by suggesting that Paris use international and humanitarian channels employed in previous incidents.

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BRIEFS

Namibia - South Africa

South Africa has reported a new outbreak of fighting 25X1 between its military forces and guerrillas of the South West Africa People's Organization along the Angolan-Namibian border. According to an official communique, 61 guerrillas and five South African troops were killed in a 36-hour battle that ended on Saturday.

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Surinam

in the country.

25X1 Surinam's Prime Minister Henck Arron and his predominantly black ruling National Party Combination coalition face a serious challenge in today's parliamentary election from East Indian patriarch Jaggernath Lachmon and his United Democratic Parties coalition. This will be the first election since Surinam gained independence from the Netherlands nearly two years ago. The campaign's major issue has been how Surinam can best spend the over \$1-billion assistance package promised by the Dutch at the time of independence. Neither Arron nor Lachmon is inclined to alter the status quo in Surinam nor to threaten Alcoa's

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subsidiary Suralco, which constitutes the major US investment

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